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THE FINANCIAL AND INDUSTRIAL OUTLOOK OF ITALY.

It is an undeniable fact that foreigners in general and English-speaking peoples in particular are too often prone to overlook the real aspect and the true tendencies of modern Italian life. The highly cultured foreigner of superior taste finds it almost impossible to think of Italy in any other light than as the home of Dante, Michelangelo, Raphael, and the other great masters of art and literature who, by their everlasting work, have enlightened even the darkest pages of Italian history. On the other hand, to the average middle-class foreigner, who has probably only traveled through Italy on a Cook excursion ticket, the name of Italy is most likely to suggest the familiar figure of the bootblack or the organ-grinder seen in his own country, or the romantic silhouette of the brigante or the lazzarone, a creation of cheap literature. To both these types of foreigners a discussion of the financial and industrial outlook of Italy might seem, for various reasons, devoid of practical bearing. The truth is that they both have a false and incorrect notion of Italy. There is something else in Italy besides the art galleries, the ruins of Pompeii, and the prolific though somewhat primitive peasantry from which our emigration is chiefly derived. This something is "the real nation"—a growing community of active, enterprising, high-spirited citizens, who are fully alive to the exigencies of our time and are not lost in a Buddhistic contemplation of the past, however glorious. They are the true representatives of the country in its younger energies. In spite of obstacles arising from scantiness of natural resources and from social conditions created by centuries of misgovernment, oppression, and political disruption, they are striving to build up a modern Italy on the lines of industrial and commercial activity which have made other nations successful in the world's competition.

I.

The ups and downs of Italian finance, since the proclamation of the kingdom in 1861, are the outward token of the hard struggle fought by the nation for building up a great power out of the ruins of seven tiny states. Think of the magnitude of the task! When the kingdom was formed, in 1861, Italy was indeed in the most discouraging condition of immaturity. Europe regarded her with mistrust and suspicion, the foreigner still held a large area of her territory, while the Pope still ruled at Rome. There was no army, no navy, no civil service; there were, practically, no railroads and no schools. The rate of illiteracy was as high as 74 per cent. Industry and commerce were almost nil. Agriculture was in a primitive condition. The public debt, resulting from the aggregated debt of the seven states, was more than 2,000,000,000 francs. It is no wonder that in 1862, that is, one year after the proclamation of the kingdom, the deficit between receipts and expenditures should have reached 446,000,000 francs. In 1866, the war with Austria adding to the tremendous difficulties of the situation, the deficit rose to 721,000,000. In 1871, after the occupation of Rome, and in spite of the most drastic measures, it was still 215,000,000. But, even at the darkest moments of this tempestuous period, Italian finance has been fundamentally honest, and Italy has made it a point to meet her financial engagements at all costs. She has never sunk to the condition of bankruptcy that has disgraced other countries.

After the occupation of Rome, in 1871, the financial situation of Italy began to show signs of positive improvement. It was not, however, until 1876 that Premier Minghetti was able to announce to the Parliament a surplus of 21,000,000. This most gratifying result was due not only to wise statesmanship, but also to the unflinching patriotism of the taxpayers, which alone made it possible to adopt the most vigorous measures in order to save the good name of the country from the blot of insolvency.

With the year 1876 ends what we might call the first period in the history of Italian finance. The deficit had been wiped

out, and the beginning of better times for the country at large seemed to be in sight.

But we were a young nation, with all the exuberance of life and the nonchalance of a reckless youth. Having got out of the woods safely, having succeeded in overcoming the tremendous difficulty of facing a disastrous deficit without going into bankruptcy, we began to think that we could do almost anything. We set out at once to build new railroads, to improve our civil service, to develop our educational system, to strengthen our army and navy, while, at the same time, we were trying to relieve the burden imposed upon the taxpayers by abolishing some of the heaviest taxes. The result of this policy could not fail to be disastrous. After various ominous oscillations, the surplus reached in 1876 disappeared in 1885, when we found ourselves again confronted by a deficit of 23,000,000 francs.

From 1885-86 to 1896-97 the deficit was constant. Owing to the general economic depression, to the increase in the military expenses, and to the colonial enterprises, it reached as high as 234,000,000 francs in 1888-89. But here again, by dint of sacrifices and through rigid economy, we found a way of re-establishing the financial equilibrium without becoming bankrupt. The men of the younger generation were as equal to the task as those great leaders who had faced the previous crisis. The most stringent measures were adopted in 1894, until we arrived at a surplus of 9,000,000 in 1897-98. Had it not been for the Abyssinian war, a surplus would have been reached a year earlier.

II.

This second financial crisis, which lasted for over ten years and greatly hampered our movements, had at least the merit of teaching us a valuable lesson. We learned through it that the corner-stone of a sound financial policy is that no expenditure be permitted, even for the purpose of creating instruments of production or of increasing the value of the government's property, as by the building of railroads, without a corresponding receipt due to a real source of revenue and not to debt. It is because we did not observe this golden rule of financial wisdom

that we lost the good results achieved in 1876, and were thrown into a condition of financial instability. Our motive was a high and noble one. We wanted to make up for lost time in the great race for progress: we were anxious to become in fact, not in word only, a great power, taking our part in the work of civilization; but we were hasty and impulsive, we lost sight of reality, and did not think of proportioning our efforts to our actual possibilities. Hence we built railroads and rebuilt cities, and threw the burden of the expense upon the labile structure of public debt.

Since the latest crisis, the watchword of our financial policy has been the most rigid enforcement of the rule: no more debts. We have come out of the struggle with a clearer head and a keener sense of reality.

The good results of such a change of methods were not slow in manifesting themselves. Since 1897 the surplus has not only been constant, but it has shown a steady increase. We had:

	1897-1898.	1898-1899.	1899-1900.	1900-1901.
Receipts (million francs) . . .	1,629.4	1,658.8	1,671.5	1,751.8
Expenditures " . . .	1,620.0	1,626.1	1,633.1	1,710.6
	+9.4	+32.6	+38.4	+41.2

So far we have been considering only the actual receipts and expenditures of the kingdom, as the basis for our discussion of its financial situation. It is a fact that the kernel or soul, as it were, of every public budget lies in the relation that expenditure bears to receipt. But in order to get a comprehensive view of all the factors involved in the question, we have also to take into account the remarkable rise in the market quotation of government bonds—a striking feature of the present financial situation of Italy. This may be due in part to the great popularity enjoyed of late years by state bonds at large as a safer investment than industrial bonds. But the increase would have been neither so rapid nor so high, had it not been for the healthy condition of the budget shown above. The price of the Italian 5 per cent. consols on the Paris market had dropped to 72 in

1894, the crucial year of the period of depression. Now they are quoted at par and even above. A remarkable fact, in connection with the rise in the price of our state bonds, is the progressive concentration of our debt in Italian hands. The number of bonds placed abroad is continuously diminishing. This evidently adds to the encouraging character of the situation, since the possession of a large share of the national debt by foreigners is always to be looked upon as an element of weakness and a possible source of danger. The gradual nationalization of our foreign debt, however, could not be regarded as an expression of reluctance on the part of foreign capital to consider our bonds as a safe investment. This is disproved by the remarkable decrease in the rate of exchange—a fact that can only mean confidence in the soundness of our circulation. The exchange had reached as high a rate as 15.95 per cent. in 1893. It has now fallen to about 2 per cent. and is bound to drop still further, since the condition of the circulation is constantly improving. We have, first, a continuous reduction of the state currency. The silver coin (1 and 2 francs), which had been replaced by paper in 1894, is now again in circulation. We have also a progressive increase in the metallic reserve of the treasury; while, on the other hand, there is a steady improvement in the condition of the three national banks controlling the circulation, namely, the Bank of Italy, the Bank of Naples, and the Bank of Sicily. The reserve held by these banks a few years ago was equal only to one-third of their circulating paper. It is now as high as 50 per cent. Hand in hand with the increase in the reserve goes the liquidation of the heavy loans on real estate, which had so badly crippled the action of our banks, and were due to hasty and immature plans of city improvements. In 1894 these assets of difficult realization, known as “bills of stone” (*cambiali di pietra*), amounted to 637,000,000 francs. In October, 1901, the dead load had been reduced to 367,000,000. This work of purification of the portfolios of our great banks still actively continues.

Thus, to sum up, the characteristic features of the financial situation of Italy, at the present moment, are :

1. A sound budget—probably one of the most solid of Europe—showing a constant and increasing surplus of receipts, due to revenue and not to debts.

2. A steady improvement of the currency, due chiefly to an increase in the metallic reserve held by both the state and the banks in guarantee of their circulating paper.

As a result of these two facts we have:

3. A continuous rise in the value of the state bonds on the foreign markets.

4. A constant diminution in the rate of exchange, Italian paper having a greater buying power than heretofore and gradually approaching par.

III.

Encouraging as they may seem, the facts just mentioned can acquire a deep significance only when viewed in the light of the economic condition of the country. The public budget is not a dead arithmetical expression. Behind its figures there is the whirl of national life, and finance is, in reality, the outcome of national economy. Now, what are the economic conditions of Italy?

The esteemed foreigner, to whom reference has already been made, will probably shrug his shoulders at the question. He considers Italy an insignificant quantity in the economic life of the world. There seems to be, in his mind, a dissonance between the two words: Italy and industry. At best, the only concession that he is willing to make is that Italy might be an agricultural country, nothing else. Let us at the very outset do away with this oft-repeated assertion. To maintain that Italy can never be other than an agricultural country, and that she has to draw her resources exclusively from agriculture, is paramount to the assumption that the country is incapable of taking its share in the industrial movement of our time, and that, by a sort of miracle, Italy can escape the crises, the diseases, the vicissitudes of weather, the competition that so seriously disturb agricultural conditions in western Europe. It is a well-ascertained fact that, in spite of the most energetic action of capital and fertilizers, and in spite of all the improved methods and processes of modern

agricultural technique, the old countries of western Europe cannot compete with the younger countries which are exploiting an almost virgin soil. In Italy, American and Australian competition has resulted in diminishing the production of wheat, with the consequence of rendering possible a duty on imported wheat, through which the price of bread has been raised, greatly to the detriment of the consumer—in this case the people at large. On the other hand, foreign competition has had the beneficial result of stimulating agricultural production in other directions. Thus, if wheat production has decreased, we find a remarkable increase in the exportation of fruits, flowers, vegetables, wine, and oil. The exportation of citrus fruits grew from 994,918 quintals in 1879 to more than two millions in 1899. During the same period the exportation of butter has increased as 1 to 3; that of cheese has quintupled; that of poultry and eggs has shown an increase of about 50 per cent. Cattle-raising has also progressed, the exportation of the different varieties, excepting horse, largely exceeding the importation. But, in spite of these rapid strides along the various lines of agricultural production, the net revenue from the cultivation of the soil has remained stationary during the last quarter of a century in Italy as in neighboring agricultural countries. In order not to fall below this average standard of production, Italy has been compelled to abandon obsolete methods and to adopt the processes of modern agricultural technique, to study the wants and needs of foreign markets, to pass, in short, from the stage of agricultural production to that of agricultural industry and trade. The success achieved in this direction goes far to prove the falseness of the assumption, already referred to, concerning the incapacity of the Italian nation to become a factor in the industrial movement of our time. But there is more. With a population increasing at a terrific rate, Italy could never have lived on agriculture alone, in spite of the most vigorous intensification of culture. She was therefore compelled, *nolens volens*, to transform herself into an industrial power.

How far Italy has progressed in this direction may conclusively be shown by one single figure. The coal imported for

industrial purposes in 1871 amounted to 791,389 tons; in 1899 it had risen to almost 5,000,000 tons. Metallurgy, the basis of modern industry, was in a primitive condition in Italy some thirty years ago. Today it has developed to such a degree as to emancipate the country entirely from foreign production in the two typical lines of naval and railway construction. We have the splendid dockyards of Ansaldo at Sestri Levante, of Orlando at Leghorn, of Armstrong at Pozzuoli. They not only supply the material for our navy, but do a large exportation business. Their armor plates and artillery supplies have won quite a reputation abroad. As for the railroad industry, Terni and Savona furnish the rails, while the great factories of Meda in Milan, Diotto in Turin, and those belonging to the Mediterranean Railroad Co. furnish the locomotives and the cars. The wonderful development of these two great industries has acted as a powerful ferment of activity in other directions. We cannot mention in detail the different industries that have grown up during the last twenty years. Among the most important we might recall the chemical industries, the manufacture of paper, that of sugar. The growth of the textile industries has been altogether remarkable. There is a steady increase in the importation of raw material, while, at the same time, the exportation of the manufactured article has greatly exceeded the importation. The surplus of exportation of silk dress and piece goods was 141,000 kilos in 1894; it had reached 746,000 in 1900. Together with the growth of the various industries goes the development of the merchant marine. In 1890 the tonnage of steam vessels of our marine was 186,000; in 1899 it had risen to 315,000. The tonnage of Italian vessels entered and cleared at Italian ports in 1896 was over 6,000,000; in 1900 it had risen to 20,000,000. In the same year the tonnage of Italian vessels entered and cleared at American ports was 864,483, which exceeds the French tonnage for the same period by 89,088.¹

¹ There are, of course, other signs of the economic development of Italy, such as the increase in the number of steam engines employed in industry, the increase in the number of hydraulic and hydro-electric plants, the increase in the importation of machineries, the increase in the number of commercial corporations, etc. We cannot give a detailed statement of figures. The reader desirous of obtaining fuller informa-

These facts unmistakably prove that the healthy condition of the budget pointed out above is simply the expression of the growing economic activity of the country. They are the exponent of the work done by the people, a work which, as a distinguished French writer remarks,¹ is the most eloquent refutation of those summary judgments by which the Italians are denied any spirit of enterprise or any business aptitude. If we think of the obstacles that stood in our way at the very start: natural obstacles—scarcity of coal and mineral resources; historical—the widely different social conditions prevailing in the various sections of the country and hampering unification; political—the tendency of a young nation to devote more time to politics than to business; financial—heavy debt, scarcity of money, lack of credit; if we think of these many obstacles, the work achieved acquires a higher significance as a test of the potentialities of the race.

IV.

Striking as it may seem, the work accomplished sinks into insignificance beside that which lies in store for the Italian nation.

An Italian, Francesco Nitti, certainly one of the most brilliant minds of the younger generation, has recently outlined in a masterful way the program by which Italy might become a great industrial power.²

In her industrial growth Italy has been greatly hampered by her natural poverty in coal and iron. Modern industry so far has depended upon coal for the supply of motor power. It is clear that, if this condition should continue, Italy could never hope to take a prominent position in the industrial movement of the world, and would be outstripped by other nations having a

tion on the subject should consult the *Annuario Statistico Italiano* ("Statistical Yearbook of Italy"), issued by the Italian Bureau of Statistics, containing exhaustive data on the various aspects of Italian life.

¹M. A. LOISEAU, "La renaissance économique de l'Italie," *Revue de Paris*, January 19 and February 1, 1901; one of the most important studies on modern Italy.

²F. NITTI, professor of finance in the University of Naples, *L'Italia all' alba del secolo XX* (Turin, 1901), a series of lectures that created quite a sensation both in scientific and political circles.

naturally more abundant supply of coal. There are, however, signs of an approaching transformation in the conditions of industrial production.

Within the last twenty years science has disclosed the possibility of utilizing electricity as a source of energy for industrial purposes. Italy, the home of Volta and Galvani, has left indelible traces in this most recent development of electric science. Pacinotti and Ferraris have made startling discoveries in this field. It is as though the genius of the race had, through these two men, shown the way by which the economic renaissance of the country was to be accomplished. It is indeed from electricity that Italy has to expect the fullest development of her potentialities as an industrial power. The problem, the great national problem of Italy, as Nitti puts it, is the substitution for coal of another source of energy, electricity, or the so-called "white coal."

Nature, while making Italy poor in coal, has greatly favored her in point of waterfalls and waterways. The great coal mines of the world will certainly be exhausted some day; those of England within the next sixty years, according to the calculations of Sir W. Armstrong, of Stanley Jevons, of the parliamentary committees of 1866 and 1873, and, most recently of all, of Lozé.¹ Water, however, will always continue to flow from the perennial source of the mountains. This very fact will radically change the conditions of industrial supremacy. The coal-producing countries which so far have been in control will see the end of their primacy through the exhaustion of their coal-beds, while the countries which, like Italy, have a wealth of potential energy stored up in their waterfalls will come to the front as the new centers of industrial production.

From calculations made by such an authority as Senator Colombo, the well-known engineer, it is estimated that the amount of energy available from this source would be about three million horse-power, while a committee of the Italian Senate in 1894 raised this estimate to five millions. Now, if we consider that the great industrial countries like England, Ger-

¹ E. LOZÉ, *Les charbons britanniques et leur épuisement* (Paris, 1900), 2 vols.

many, France, and the United States do not employ more than from three to four million horse-power in all their industries, it becomes apparent that a great future is open to Italy by the substitution of electricity for steam as a source of energy for manufacturing purposes.

Iron has shared with coal the privilege of being a great factor in modern industry, but aluminium is rapidly coming to the front as a possible substitute for it. Light as glass, resistant as iron, aluminium has all the requisites to insure its final triumph. Since aluminium is almost exclusively obtained electrolytically from alumina, the establishment of a vast system of hydro-electric plants in the way suggested by Nitti would greatly facilitate the production of the new metal. Thus, another cause of industrial inferiority—lack of iron—would be eliminated.

In conclusion, the vital issue for Italy is her transformation into a great industrial power. The work already accomplished in this direction gives evidence of the untiring energy and the complex aptitudes of the race. If only the efforts of both government and nation were strenuously bent toward the practical solution of the technical problems involved in the proposed substitution of electricity for coal, Italy, with her immense reservoir of water power, with her ever-increasing population, with her healthy current of emigration destined to open up new markets and outlets for her production, would soon be in a position to become a prominent factor in the industrial movement of the world. The twentieth century would thus see the most striking instance yet witnessed of Latin vitality.

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